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RR RUEHRG
DE RUEHSO #0650/01 3391816
ZNR UUUUU ZZH
R 041816Z DEC 08
FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC 8757
INFO RUEHBR/AMEMBASSY BRASILIA 9908
RUEHRG/AMCONSUL RECIFE 4251
RUEHRI/AMCONSUL RIO DE JANEIRO 8937
RUEHBU/AMEMBASSY BUENOS AIRES 3338
RUEHAC/AMEMBASSY ASUNCION 3585
RUEHMN/AMEMBASSY MONTEVIDEO 2814
RUEHSG/AMEMBASSY SANTIAGO 2585
RUEHLP/AMEMBASSY LA PAZ 3994
RUCPDO/USDOC WASHDC 3220
RUEATR/DEPT OF TREASURY WASHDC
RHEHNSC/NATIONAL SECURITY COUNCIL WASHDC

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E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [BR](#)
SUBJECT: DIFFERING BRAZILIAN VOICES ON U.S. ETHANOL POLICY AT
BIOFUELS CONFERENCE

REF: Brasilia 1393; Brasilia 1553

SENSITIVE BUT UNCLASSIFIED--PLEASE PROTECT ACCORDINGLY

11. (U) Summary: At the Government of Brazil's (GOB) much anticipated International Conference on Biofuels held in Sao Paulo from November 17 to 21, GOB reps, for the most part, stuck to the spirit of the U.S.-Brazil biofuels MOU and kept to promises to remain united with the U.S. on expanding ethanol markets, focusing on bilateral cooperative efforts and downplaying our differences over the ethanol tariff. In contrast, Sao Paulo state governor Jose Serra criticized U.S. ethanol production in both his opening and closing remarks, using the occasion to lambaste U.S. trade policy and the higher production costs of corn ethanol. He also made the charge that the U.S. is actually obstructing the creation of a global biofuels market. Governor Serra may have been showing an economic nationalist streak or merely taking the opportunity to curry favor with his constituents in a lead up to his expected Presidential bid in 2010. GOB officials meanwhile took pains to remind the U.S. delegation that Serra did not speak for the Brazilian government. There were many Brazilian non-governmental participants whose comments are not characterized in this cable but will be addressed more specifically in further conference reporting. End Summary.

12. (U) The GOB had criticized U.S. ethanol production during the food vs. fuel debate earlier this year. However, since the Food and Agriculture Organization's meeting in Rome when President Lula famously differentiated between good and bad ethanol, GOB reps have consistently told Mission contacts that Brazilian government strategy was not to differentiate sugar from corn ethanol. (Note: Ministry of Foreign Relations officials had assured Ambassador Sobel the speech was the work of errant speech writers whose focus was more agricultural than energy and would not be repeated. End Note.) Instead, they chose to line up with the U.S. in countering ethanol critics and work with Washington to create a global marketplace for ethanol.

13. (SBU) Andre Correa do Lago, Ministry of Foreign Affairs' Assistant Secretary-equivalent for Energy, has on multiple occasions told Ambassador Sobel and visiting U.S. delegations that it is not in Brazil's interest to differentiate between types of ethanol, as doing so would only hamper efforts to develop a worldwide market in biofuels. Under Secretary for Energy and Science Andre Amado went

further, suggesting to the Ambassador and others that the campaigns against biofuels and differentiating feed stocks were the result of orchestrated efforts by entrenched industrial interests.

14. (SBU) Indeed, GOB conference panelists and invited speakers, including Energy Minister Edison Lobao and Presidential Chief of Staff Dilma Rousseff (likely opponent of Serra's in a 2010 presidential bid), by and large adhered to the message that common efforts to develop the world ethanol market would be good for both Brazil and the U.S., with Rousseff particularly highlighting the cooperation between the U.S. and Brazil in developing biofuels industries in developing countries. Both highlighted the virtues of ethanol, limiting discussion about the differences among types of ethanol production. In Minister Lobao's closing speech, he countered several common criticisms of ethanol, stating that fertilizers were the largest contributor to food price inflation and that ethanol had less environmental impact than fossil fuels. (Note: See septels for more on the International Conference on Biofuels topics. End Note.)

15. (U) President Lula himself avoid any repeats of past unfortunate comments differentiating types of ethanol and instead focused on the importance, particularly in times of global economic crisis, of developing a global markets for biofuels. He said that Brazil doesn't want the U.S. or Europe to stop producing their respective biofuels products, and only asks that they work to bring biofuels industry to developing countries as well. He voiced his willingness to work with any country that wanted to transform the life of the people and create income. Lula also echoed some of the themes of Lobo's speech, countering past claims that biofuels were to blame for the food crisis. (Note: Though he stayed positive on biofuels,

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in discussing climate change and biofuels' role in addressing it, Lula did highlight statistics showing the U.S. as the largest greenhouse gas emitting country in the world. End Note.)

16. (U) Governor Serra, in contrast, was extremely critical of U.S. ethanol, along with U.S. trade policy, and underscored the differences between U.S. and Brazilian ethanol during both his opening and closing remarks to the conference. In his conference keynote, Serra boasted about Brazil's energy matrix, citing Brazil as the "greenist" industrialized country with 48 percent share of its energy generated from renewable sources. He went on to point out that 15 percent of Brazil's energy is derived from sugarcane, highlighting ethanol for automobile fuel as the primary driver. Serra further identified the state of Sao Paulo as the major producer of ethanol. Sixty percent of Brazil's sugar production and two-thirds of the country's ethanol for export are produced in Sao Paulo. Serra noted that Sao Paulo was working toward the total elimination of the manual sugarcane harvest, which requires burning the fields after harvest, and also touted the state's investments and research endeavors into biofuels.

17. (U) In both speeches, Serra distinguished Brazilian ethanol from other sources, paying particular attention to U.S. ethanol. Serra stated that U.S. ethanol is less efficient and blamed worldwide food price inflation on U.S. corn ethanol. He said that U.S. corn-based ethanol production was "much more costly, and that it was largely responsible for the recent period of high inflation because of higher corn prices." Serra added that Brazilian sugarcane ethanol did not compete with food production and that it was the cheapest feed stock. He noted that second generation cellulosic ethanol production would not erase the production cost benefit of Brazilian ethanol.

18. (U) Serra emphasized that U.S. policies obstruct the existence of a global biofuels market and indentified the United States as the most protectionist developed country. He said the "U.S. preaches but does not practice" free trade. Serra told the high level delegation at the closing ceremony that the U.S. tariff of 14 cents per liter against imported ethanol was only one of many non-tariff obstacles to entry into the U.S. market. He said domestic subsidies increased the effective tariff to 30 cents per liter, the rough equivalent to the production cost of Brazilian sugarcane ethanol. According to Serra, the U.S. had to establish these types of regimes

to protect the market for the less efficient corn-based ethanol.

¶9. (U) Finally, Serra said that Brazil should help other countries develop ethanol markets in order to expand the ethanol supply needed to develop a global market. He highlighted the investment and technical assistance that the GOB had been doing in third countries.

Serra failed to mention that such programs are a key part of the U.S.-Brazil MOU, which established third country assistance.

¶10. (SBU) Comment: Governor Serra's attack on U.S. ethanol likely reflects his positioning of himself for the 2010 presidential election. Serra is staking out his credentials as a green economic nationalist, an identity that could play well as the global financial crisis hits Brazil and puts pressure on the Lula administration to respond. Serra has been very proactive in recent weeks in demonstrating his efforts to strengthen various entities of the state of Sao Paulo against the financial crisis. GOB contacts at the conference admitted to U.S. delegation members that they were embarrassed by Serra's attacks on the U.S. One of the organizers lamented that Serra "just didn't get the point of the conference." Multiple GOB representatives took pains to remind the U.S. delegation that Serra did not speak for the government. Based on these reactions and GOB actions and rhetoric both in advance of and during the conference, it appears that, despite nationalistic rhetoric from some quarters, the GOB intends to stick to its message: that biofuels are better than oil, a global market is essential for this quick and clean alternative to flourish, and wealthier nations must assist developing nations in taking advantage of the opportunities presented by biofuels. Post will continue to work with the GOB to advance our mutual efforts in this direction and will seek opportunities to counter Serra's nationalist drift with more accurate information about the U.S.-Brazil energy

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partnership. The ethanol tariff will continue to be an irritant in bilateral relations as long as it remains in place, but overall cooperation in the biofuels arena is still a highlight of the bilateral relationship and offers great opportunities for continued positive engagement.

¶11. (SBU) COMMENT CONTINUED - BIO NOTE. Most observers expect Governor Serra to be the center-right PSDB candidate for the 2010 Presidential election. He likely will square off against President Lula's preferred successor, Chief of Staff Dilma Rousseff. Lula, who came into office billed as a Workers Party (PT) leftist, has shown a pragmatic streak, particularly on macroeconomic issues. Serra, although leader of a party considerably to the right of the PT, is himself seen to have leftist tendencies, some undoubtedly honed in his period of political exile from Brazil during the military dictatorship. His comments last week on trade and biofuels are a case in point. While often critical of the U.S., Serra is not anti-American, and is an effective administrator willing to work with us on issues of mutual interest and concern. End Comment.

¶12. (U) This cable was coordinated/cleared by Embassy Brasilia and the ATO in Sao Paulo.

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